TEACHERS' PENSION PLAN ONTARIO

Pension News

INFORMATION FOR RETIRED TEACHERS AND THEIR SURVIVORS — SUMMER 2004

New health premium reduces net pension

Your after-tax pension is likely to decrease in July when the Ontario government introduces a new health premium.

The premium, based on your taxable income, will be deducted from your monthly Teachers' pension if it totals more than $20,000 a year.

A pensioner with an annual pension of $36,000 will pay $25 more tax a month or $150 more for the rest of this year.

Here's the maximum premium people will pay at different income levels. Actual amounts increase proportionately at the start of each income level. For example, if your annual before-tax income is $36,500, the premium will cost you $165 for 2004.

Annual taxable income	Maximum monthly premium	Maximum premium for 2004*	Maximum premium for 2005*
Up to $20,000	0	0	0
$20,001 to $36,000	$ 25.00	$ 150	$300
$36,001 to $48,000	$ 37.50	$ 225	$450
$48,001 to $72,000	$ 50.00	$ 300	$600
$72,001 to $200,000	$ 62.50	$ 375	$750
More than $200,000	$ 75.00	$ 450	$900

* Based on six remaining months of 2004; based on 12 months in 2005

Deducting less tax from your pension

If you want to decrease the tax we deduct from your monthly pension, you need to claim additional tax credits. Tax credits apply, for example, if you become disabled, turn age 65, support certain dependants or go back to school.

To claim additional tax credits, send us a completed federal government TD1 form and, if you live in Ontario, the TD1ON.

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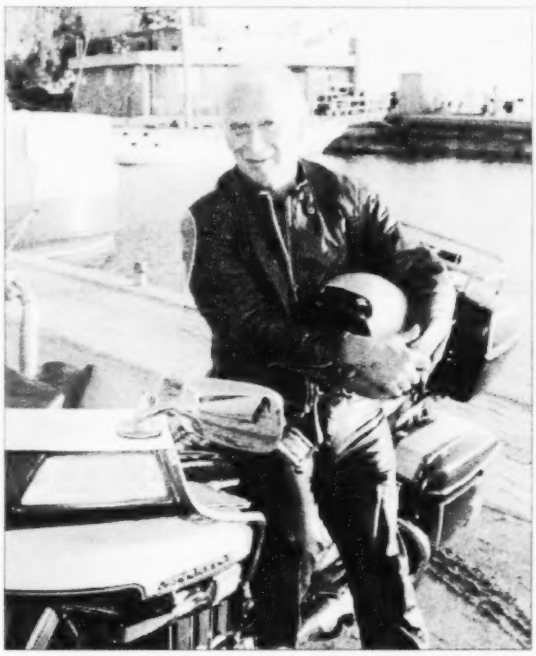

The new health premium won't stop retired teacher Gerry Scanlon, of Port Elgin, from enjoying motorcycle or sailing trips.

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You must stop teaching to reinstate a pension

Was your pension suspended because you exceeded the 95-day limit on re-employment? If so, we cannot reinstate your pension until you stop working. In addition, you cannot return to work again during the month in which your pension is reinstated.

Under plan provisions in place until Aug. 31, 2006, you can teach for up to 95 days each school year without affecting your pension, no matter how many days you may have taught in the past. However, if you continue to work the month after you reach your 95th day of re-employment, your pension is suspended and contributions to the plan resume on your 96th day of work.

Jane Murphy, a teacher-librarian in Newmarket, plans to teach after retirement

To reinstate your pension, we require a completed pension reinstatement form or a pension application if you've worked for more than a year and want your pension recalculated. For more information, read our revised *Teaching after Retirement* fact sheet, available in the publications section of our Web site at www.otpp.com, or call us at 416-226-2700 or 1-800-668-0105, weekdays from 8 a.m. to 5:30 p.m.

Terminally ill can withdraw pension funds

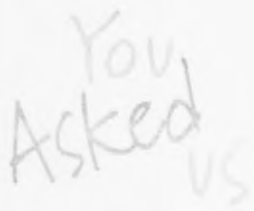
If you face a shortened life expectancy, you may be able to withdraw the commuted value of your pension. To qualify for shortened life benefits, you must provide:

- medical evidence, from a doctor licensed in Canada, verifying you have a life expectancy of less than two years; and
- written consent from your spouse.

Your spouse's consent is needed because he or she forfeits the right to a survivor pension if you withdraw your pension funds early.

The shortened life benefit provides the equivalent of four months' pension in lieu of further payments, plus the present value of any survivor pension or other death benefit.

For more information or to apply for the benefit, contact us at 416-226-2700 or 1-800-668-0105, weekdays from 8 a.m. to 5:30 p.m.



Q *Who decides how to deal with the funding shortfall announced earlier this year in the annual* Report to Members*?*

A The Ontario government and the Ontario Teachers' Federation (OTF), as the plan's sponsors, are responsible for setting contribution rates, establishing benefit levels and ensuring the plan has enough money to pay future pensions. We cannot speculate on what action the sponsors may take in the future to bring pension plan costs and benefits in line. Our job is to ensure the sponsors receive the relevant information they need to make timely, informed decisions. If the funding shortfall persists, the sponsors need to develop a plan of attack within two years to bring the plan back into balance.

Q *Can I return to work if I'm collecting a partial disability pension?*

A No, if you return to work you're not eligible to receive a disability pension.

Q *Can I transfer my own RRSP funds into the Teachers' plan to increase the size of my pension?*

A No, you can only transfer RRSP funds into the plan before you retire to buy back credit for an eligible period of absence from work, such as an employer-approved leave.

Q *Why doesn't the Teachers' plan offer group benefit plans, such as dental and health insurance, for retired members?*

A By law, the money in the pension fund cannot be used for such purposes. Some former employers pay for health benefits for pensioners from their general revenue. ■

CPP reduction kicks in early on death or disability

Forgetting to tell us when you begin to collect a CPP disability pension could prove costly, especially if you are under age 65.

The CPP reduction that normally applies to your Teachers' pension at 65 takes effect as soon as you begin to receive a CPP disability pension. If you don't tell us right away, we must collect, with interest, the reduction that should have applied to your Teachers' pension while you collected the benefit. This could prove costly because the CPP reduction is about $5,000 a year for an average career teacher.

While reductions apply immediately for CPP disability pensions, collecting a CPP retirement pension early has no effect on your Teachers' pension. However, the CPP reduction is always applied before we calculate survivor benefits if you die before age 65. ■

- Approximately 3,300 teachers have retired so far this year.
- The number of pensioners has more than doubled in the past 10 years.
- There is now one pensioner for every 1.7 contributing teachers.
- There are 44 pensioners over 100 years old.
- Almost 2,000 pensioners are in their 90s.

Part four of an ongoing investment series

Equities generate good returns for pension plan

As a member of the Teachers' pension plan, you indirectly own a piece of some of the biggest companies in the world, from Microsoft to Hewlett-Packard.

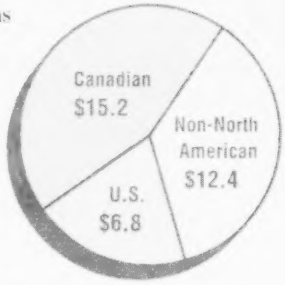
The plan has $34.3 billion invested in Canadian, U.S. and non-North American equities or about 46 per cent of the fund's total assets. Last year, equities returned 19.9 per cent, 2.3 per cent more than the markets.

We passively and actively manage our equity holdings to achieve the best returns possible at a reasonable level of risk.

Passive management involves buying a standard basket of stocks that includes all the stocks listed in market indices around the world. We hold about 2,000 stocks, worth more than $20 billion, listed on exchanges such as the TSX in Canada, the S&P 500 in the U.S. and the FS100 in England.

We also search the world for stocks we believe are undervalued, reflecting our commitment to do more than simply replicate the market indices. About $14.5 billion of our equities are actively managed.

Equities (in billions)



The plan has $34.3 billion invested in equities.

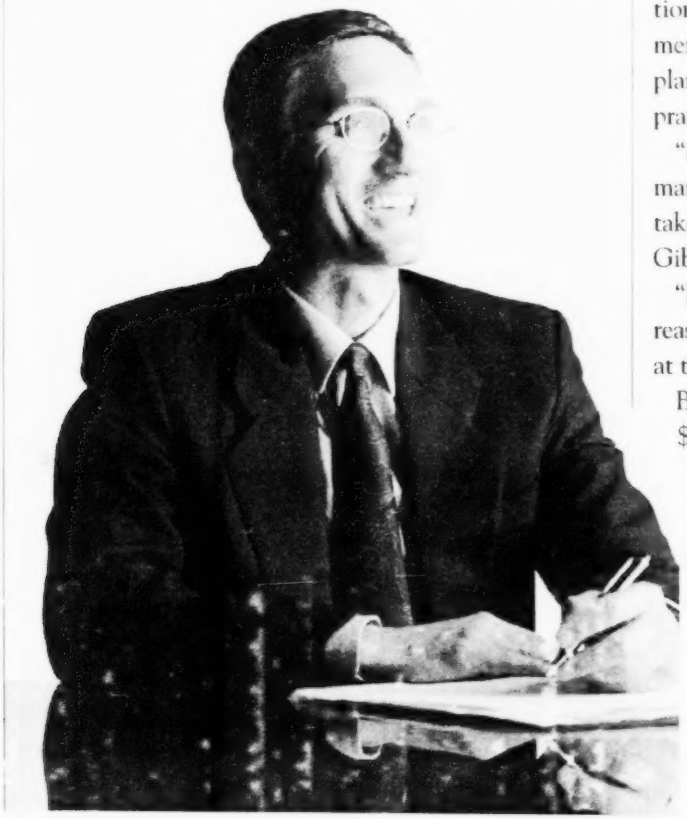
In the search for value, our teams of portfolio managers and stock analysts evaluate a wide range of factors that can affect a company's performance including financial performance, operations, industry position, management quality, long-term business plan, board structure, environmental practices and labour relations.

"It can take several years for the market to recognize the value of a company's shares, so we take a long-term approach to our investments," said Brian Gibson, senior vice-president, Global Active Equities.

"Despite the long-term approach, we continuously reassess our positions because world conditions can change at the drop of a hat. We cannot afford to sit still."

By actively managing our assets, we made almost $740 million more last year than we would have by simply replicating the holdings on stock markets around the world.

"I'm proud of our track record and the value we provide to our members," Brian said. ■



Brian Gibson, senior vice-president, Global Active Equities

Pensioners help efforts to shelve caps on income trusts

The Teachers' pension plan, supported by the Retired Teachers of Ontario, led a broad pension industry coalition that successfully lobbied the federal government earlier this year to temporarily suspend limits on pension investments in business income trusts.

The government has said it will consult with the pension industry before deciding whether to reintroduce restrictions later this year.

In the meantime, the Teachers' plan will continue its efforts to persuade the federal government to permanently end the proposed limits, which would have restricted pension plans to only one per cent of their total assets in business income trusts and no more than five per cent in a single trust fund.

"We applaud the government's suspension of measures that would have seriously curtailed our ability to make money and secure pensions for teachers," said Bob Bertram, executive vice-president, Investments.

"The proposed caps on income trusts seriously discriminated against our 250,000 members and the millions of other Canadian workers whose retirement income is managed by pension plans.

"The caps would have unfairly excluded them from benefiting from the growth and stable cash flows income trusts provide."

Income trusts are the fastest growing segment of the market, worth more than $90 billion on the Toronto Stock Exchange. Income trusts generated almost $800 million in investment income for the Teachers' plan in 2003 and are an important tool in diversifying risk.

"Our direct investment in business income trusts already exceeded the proposed limits before even considering the impact of indirect investments, such as derivatives, hedge funds and partnerships," Bob said.

"The caps would have put us at a severe disadvantage in competing for investments against other Canadian and foreign investors, including mutual funds, which were exempted from the proposal.

"The government says it loses tax revenue from income trusts. I think it forgets we sent $600 million in tax to the government last year alone on behalf of our pensioners," Bob said.

For more information, watch a two-minute video presentation on our opposition to the proposed income trust caps. The presentation is one of 11 you can view online at www.otpp.com. ■

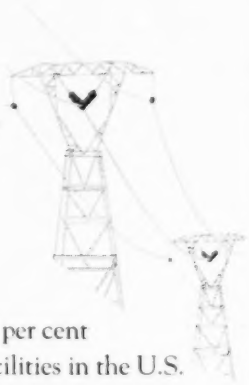
Plan targets energy sector for investment

The energy sector will help pay your pension in the future.

In anticipation of increased demand for energy, the Teachers' plan has a major strategic investment in the energy sector, including oil and gas, coal, hydro-electric power and alternative forms of energy.

The plan's largest equity investment, valued at close to $1 billion, is in Nexen, a Canadian oil and gas company with operations throughout the world. The second-largest equity holding is Fording coal, valued at more than $600 million.

"With modern technology, clean burning coal now produces energy with even lower emissions than gas and offers a cheap, plentiful source of energy to meet future demands," said Bob Bertram, executive vice-president, Investments.



In partnership with Sherritt International, we own about 85 per cent of the coal reserves in Canada.

Earlier this year, we bought a 50 per cent interest in 25 power generation facilities in the U.S.

Investments in alternative energy sources, such as power from windmills, are also being explored in keeping with the plan's commitment to seek the best possible returns at a reasonable level of risk. ■

How to calculate the CPP pension reduction

Many pensioners are stunned when their pension drops by an average of $5,000 a year at age 65.

"We do our best to prepare pensioners for the CPP reduction through letters and other communications. Yet many people are still surprised to see their Teachers' pension drop after their 65th birthday," said Rosemarie McClean, vice-president, Member Services.

Despite the decrease, total income actually increases for most pensioners after age 65, notes Rosemarie.

To understand how we calculate the reduction, you must first understand how we arrive at your basic pension.

Step One – the basic pension formula

2% x years of credit x best five-year average salary

Example: Joanne retired with an unreduced pension five years ago when she reached age 60. At retirement, she had 30 years of credit and a best five-year average salary of $65,000. She chose the free 50 per cent survivor pension. Joanne's annual starting pension was $39,000, calculated as follows:

2% x 30 years x $65,000 = $39,000

Joanne's pension today is $43,538 a year, or $3,628 a month, as a result of annual inflation increases.

Step Two – the formula for the CPP reduction

0.45% x years you contributed to CPP x best five-year average CPP maximum salary (or your best five-year average salary, if lower)

Example: Joanne turns 65 next month. Her pension will be reduced by $5,437 a year, as calculated below.

0.45% x 30 years x $36,080 (five-year average CPP maximum salary in 1999) = $4,870.80.

Inflation adjustments increase this reduction to $5,437 a year in 2004 or $453 a month.

Formula loosely integrated with CPP

The reduction will apply to Joanne's Teachers' pension, regardless of when or how much she collects as a CPP retirement pension.

Like most retired teachers, Joanne began collecting a CPP retirement pension at age 60 in exchange for a 30 per cent lifetime reduction in her CPP pension. Her decision to collect CPP early had no effect on her Teachers' pension.

To get a complete picture of her retirement income, Joanne took into account income from other sources, including the government's Old Age Security pension, which begins at age 65. She had no substantial personal savings to convert to an income stream.

Here's how Joanne's income looks today vs. next month when she turns 65.

Joanne's current income	Joanne's income at age 65
$3,628 Teachers' pension	$3,175 Teachers' pension
$ 592 CPP	$ 592 CPP
n/a OAS	$ 463 OAS
$4,220 Total	**$4,230 Total**

For information on OAS or CPP, call Social Development Canada, listed in the Government of Canada section of your telephone directory, or visit the CPP/OAS web site at www.sdc.gc.ca.

For more information on your Teachers' pension, visit our Web site at www.otpp.com or call 416-226-2700 or 1-800-668-0105, weekdays from 8 a.m. to 5:30 p.m.

Video clips highlight topical issues

You can see short presentations on topical pension matters from the comfort of your home.

Eleven video clips, on topics ranging from corporate integrity to our funding shortfall, can be viewed in the newsroom section of www.otpp.com.

View presentations, each averaging two minutes, from President and CEO Claude Lamoureux; Bob Bertram, executive vice-president, Investments; Rosemarie McClean, vice-president, Member Services; and Robin Korthals, chair of the board.

The presentations include:

- Our 2003 investment performance
- Funding shortfall – the importance of balance
- How the energy sector will help pay pensions in the future
- Why we fight for good governance
- Service improvements for members
- Why we opposed caps on income trusts
- Q&As on topical issues
- How we protect your privacy
- Management compensation – how our bonus structure works
- Ethical investing
- Corporate integrity – high standards at Teachers' pension plan ■

FAST FACTS

- Our *i*Access Web site uses the same high level of security as banks and other financial institutions.
- In a recent industry survey, our Web site and communications materials were ranked as the best in a field of 56 pension plans from around the world.
- We can now communicate, quickly and efficiently, by e-mail with 14 per cent of our pensioners. ■

Ten reasons to get online now!

1. Change your address or phone number at your convenience.
2. See how we plan to vote on any major issue affecting the largest companies in Canada.
3. Retrieve personal correspondence, complete with signatures, in your own electronic inbox.
4. Read news about your pension plan as soon as it's released.
5. View your personal pension file any time.
6. Watch video clips on topics ranging from the plan's funding shortfall to our strategic investment in energy.
7. Learn about the people who manage your pension plan.
8. Find out how the fund's investments performed.
9. Link to other organizations that serve teachers.
10. Gain access to more than 700 pages of information, presented in an easy-to-find format. ■

Choose different Internet services

You can sign up for any one or a combination of three Internet services, including:

- *i*Access – our secure member Web site, where you can change your address or view your personal pension file online
- E-mail news – providing regular information updates, including an electronic (rather than a printed) copy of this newsletter and the annual *Report to Members*
- E-mail promotional offers – such as discounted tickets to Raptors' games

To register for services, complete the registration form found in the Plan Info section of our Web site at www.otpp.com or call 416-226-2700 or 1-800-668-0105, weekdays from 8 a.m. to 5:30 p.m.

If you sign up for a service and later decide you don't want it, you can simply opt out. ■

New health premium reduces net pension

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Both forms, which describe the 11 types of credit available, can be obtained from the publications section of our Web site at www.otpp.com or by calling us at 416-226-2700 or 1-800-668-0105.

If you think you qualify to pay reduced taxes because of certain deductions you can claim on your annual income tax return, contact the Canada Revenue Agency. Such deductions could include large charitable donations, support payments required under a separation or divorce agreement and allowable RRSP contributions (often stemming from contribution room carried forward from working years).

If the government approves your request to reduce the tax we withhold from your pension, send us their approval letter. By law, we cannot reduce withholding tax without the government's written authorization. ■

Pension News

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We appreciate your comments about anything you read in *Pension News*. Please contact Debra Hanna at (416) 730-5351 or 1-877-812-7989 or e-mail: debra_hanna@otpp.com

This newsletter does not create any right to benefits. Your entitlements and those of your survivors are and will be governed by the language of the pension plan text. The information contained in this newsletter is not intended to be relied upon in relation to any particular circumstance.

Ce bulletin est disponible également en français.

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Keep us in the loop

We need to know if you are moving, changing your marital status or switching bank accounts.

Timely notification of these and other changes will ensure pension payments and information continue uninterrupted.

We need accompanying documentation and a signature to make some changes, as outlined in the chart below. Be sure to include your full name, telephone number and social insurance number in any correspondence.

How to notify of changes

What	How	When
Change of address	Call us, complete an *Information Update Form* or visit *i*Access, our secure member Web site.	Our records are updated as soon as we hear from you.
Change of bank account	Send a void cheque along with either a signed letter authorizing the change or a completed *Pension Payment Banking Request Form*.	Notice needed early in month to deposit pension payment in new account at end of the same month.
Change in marital status	Call us or send us a completed *Information Update Form*, along with proof of the change, such as a marriage certificate or separation agreement	Our records are updated as soon as we receive the documentation.